

§ 344.6

31 CFR Ch. II (7-1-14 Edition)

the time of the subscription and are beyond the issuer's control (for example, a natural disaster);

(2) You cannot change the aggregate principal amount originally specified in the subscription by more than ten percent; and

(3) You cannot change an interest rate to exceed the maximum interest rate in the SLGS rate table that was in effect for a security of comparable maturity on the business day that you began the subscription process.

(e) *How do I complete the subscription process?* The completed subscription must:

(1) Be dated and submitted electronically by an official authorized to make the purchase;

(2) Separately itemize securities by the various maturities, interest rates, and first interest payment dates (in the case of notes and bonds);

(3) Not be more than ten percent above or below the aggregate principal amount originally specified in the subscription;

(4) Not be paid with proceeds that are derived, directly or indirectly, from the redemption before maturity of SLGS securities subscribed for on or before December 27, 1976;

(5) Include the certifications required by § 344.2(e)(2)(i) (relating to yield); and

(6) Include the information required under paragraph (b), if not already provided.

(f) *When must I complete the subscription?* Fiscal Service must receive a completed subscription on or before 3:00 p.m., Eastern time, on the issue date.

§ 344.6 How do I redeem a Time Deposit security before maturity?

(a) *What is the minimum time a security must be held?* (1) Zero percent certificates of indebtedness of 16 to 29 days. A zero percent certificate of indebtedness of 16 to 29 days can be redeemed, at the owner's option, no earlier than 15 days after the issue date.

(2) *Certificates of indebtedness of 30 days or more.* A certificate of indebtedness of 30 days or more can be redeemed, at the owner's option, no earlier than 25 days after the issue date.

(3) *Notes or bonds.* A note or bond can be redeemed, at the owner's option, no

earlier than 30 days after the issue date.

(b) *Can I request partial redemption of a security balance?* You may request partial redemptions in any whole dollar amount; however, a security balance of less than \$1,000 must be redeemed in total.

(c) *Do I have to submit a request for early redemption?* Yes. An official authorized to redeem the securities before maturity must submit an electronic request in SLGSafe. The request must show the Taxpayer Identification Number of the issuer, the security number, and the dollar amount of the securities to be redeemed. Upon submission of a request for redemption before maturity of a security subscribed for on or after August 15, 2005, the request must include a yield certification under § 344.2(e)(2)(ii). Fiscal Service must receive the request no less than 14 days and no more than 60 days before the requested redemption date. You cannot submit a request for early redemption for a security which has not yet been issued and you cannot cancel a request once it has been submitted.

(d) *How do I calculate the amount of redemption proceeds for subscriptions on or after October 28, 1996?* For securities subscribed for on or after October 28, 1996, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* If a security is redeemed before maturity on a date other than a scheduled interest payment date, Treasury pays interest for the fractional interest period since the last interest payment date.

(2) *Redemption value.* The remaining interest and principal payments are discounted by the current Treasury borrowing rate for the remaining term to maturity of the security redeemed. This may result in a premium or discount to the issuer depending on whether the current Treasury borrowing rate is unchanged, lower, or higher than the stated interest rate of the early-redeemed SLGS securities. There is no market charge for the redemption of zero interest Time Deposit securities subscribed for on or after October 28, 1996. Redemption proceeds in the case of a zero-interest security are a return of the principal invested. The

formulas for calculating the redemption value under this paragraph, including examples of the determination of premiums and discounts, are set forth in appendix B of this part.

(e) *How do I calculate the amount of redemption proceeds for subscriptions from September 1, 1989, through October 27, 1996?* For securities subscribed for from September 1, 1989, through October 27, 1996, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* If a security is redeemed before maturity on a date other than a scheduled interest payment date, Treasury pays interest for the fractional interest period since the last interest payment date.

(2) *Market charge.* An amount shall be deducted from the redemption proceeds if the current Treasury borrowing rate for the remaining period to original maturity exceeds the rate of interest originally fixed for such security. The amount shall be the present value of the future increased borrowing cost to the Treasury. The annual increased borrowing cost for each interest period is determined by multiplying the principal by the difference between the two rates. For notes and bonds, the increased borrowing cost for each remaining interest period to original maturity is determined by dividing the annual cost by two. Present value is determined by using the current Treasury borrowing rate as the discount factor. When you request a redemption date that is less than thirty days before the original maturity date, we will apply the rate of a one month security as listed on the SLGS rate table issued on the day you make a redemption request. The market charge under this paragraph can be computed by using the formulas in appendix A of this part.

(f) *How do I calculate the amount of redemption proceeds for subscriptions from December 28, 1976, through August 31, 1989?* For securities subscribed for from December 28, 1976, through August 31, 1989, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* Interest for the entire period the security was outstanding shall be recalculated if the original interest rate of the security is higher than the interest rate that would have been set at the time of the initial subscription

had the term of the security been for the shorter period. If this results in an overpayment of interest, we will deduct from the redemption proceeds the aggregate amount of such overpayments, plus interest, compounded semi-annually thereon, from the date of each overpayment to the date of redemption. The rate used in calculating the interest on the overpayment will be one-eighth of one percent above the maximum rate that would have applied to the initial subscription had the term of the security been for the shorter period. If a bond is redeemed before maturity on a date other than a scheduled interest payment date, no interest is paid for the fractional interest period since the last interest payment date.

(2) *Market charge.* An amount shall be deducted from the redemption proceeds in all cases where the current Treasury borrowing rate for the remaining period to original maturity of the security prematurely redeemed exceeds the rate of interest originally fixed for such security. You can compute the market charge under this paragraph by using the formulas in appendix A of this part.

(g) *How do I calculate the amount of redemption proceeds for subscriptions on or before December 27, 1976?* For bonds subscribed for on or before December 27, 1976, the amount of the redemption proceeds is calculated as follows:

(1) *Interest.* The interest for the entire period the bond was outstanding shall be recalculated if the original interest rate at which the bond was issued is higher than an adjusted interest rate reflecting both the shorter period during which the bond was actually outstanding and a penalty. The adjusted interest rate is the Treasury rate which would have been in effect on the date of issue for a marketable Treasury bond maturing on the semi-annual maturity period before redemption reduced by a penalty which must be the lesser of:

(i) One-eighth of one percent times the number of months from the date of issuance to original maturity, divided by the number of full months elapsed from the date of issue to redemption; or

(ii) One-fourth of one percent.

§ 344.7

(2) *Deduction.* We will deduct from the redemption proceeds, if necessary, any overpayment of interest resulting from previous payments made at a higher rate based on the original longer period to maturity.

Subpart C—Demand Deposit Securities

SOURCE: 70 FR 37911, June 30, 2005, unless otherwise noted.

§ 344.7 What are Demand Deposit securities?

Demand Deposit securities are one-day certificates of indebtedness that are automatically rolled over each day until you request redemption.

(a) *How is the rate for Demand Deposit securities determined?* Each security shall bear a rate of interest based on an adjustment of the average yield for 13-week Treasury bills at the most recent auction. A new annualized effective Demand Deposit rate and daily factor for the Demand Deposit rate are effective on the first business day following the regular auction of 13-week Treasury bills and are shown in the SLGS rate table. Interest is accrued and added to the principal daily. Interest is computed on the balance of the principal, plus interest accrued through the preceding day.

(1) *How is the interest rate calculated?* (i) First, you calculate the annualized effective Demand Deposit rate in decimals, designated “I” in Equation 1, as follows:

$$I = \left[\left(\frac{100}{P} \right)^{Y/DTM} - 1 \right] \times (1 - MTR) - TAC$$

(Equation 1)

Where:

I = Annualized effective Demand Deposit rate in decimals. If the rate is determined to be negative, such rate will be reset to zero.

P = Average auction price for the most recently auctioned 13-week Treasury bill, per hundred, to six decimals.

Y = 365 (if the year following issue date of the 13-week Treasury bill does not contain a leap year day) or 366 (if the year following issue date of the 13-week Treasury bill does contain a leap year day).

31 CFR Ch. II (7–1–14 Edition)

DTM = The number of days from date of issue to maturity for the most recently auctioned 13-week Treasury bill.

MTR = Estimated marginal tax rate, in decimals, of purchasers of tax-exempt bonds.

TAC = Treasury administrative costs, in decimals.

(ii) Then, you calculate the daily factor for the Demand Deposit rate as follows:

$$DDR = (1 + I)^{1/Y} - 1$$

(Equation 2)

(2) *Where can I find additional information?* Information on the estimated average marginal tax rate and Treasury administrative costs for administering Demand Deposit securities, both to be determined by Treasury from time to time, will be published in the FEDERAL REGISTER.

(b) *What happens to Demand Deposit securities during a Debt Limit Contingency?* At any time the Secretary determines that issuance of obligations sufficient to conduct the orderly financing operations of the United States cannot be made without exceeding the statutory debt limit, we will invest any unredeemed Demand Deposit securities in special ninety-day certificates of indebtedness. Funds invested in the ninety-day certificates of indebtedness earn simple interest equal to the daily factor in effect at the time Demand Deposit security issuance is suspended, multiplied by the number of days outstanding. When regular Treasury borrowing operations resume, the ninety-day certificates of indebtedness, at the owner’s option, are:

- (1) Payable at maturity;
- (2) Redeemable before maturity, provided funds are available for redemption; or
- (3) Reinvested in Demand Deposit securities.

[70 FR 37911, June 30, 2005, as amended at 77 FR 33635, June 7, 2012]

§ 344.8 What other provisions apply to subscriptions for Demand Deposit securities?

(a) *When is my subscription due?* The subscriber must fix the issue date of each security in the subscription. You cannot change the issue date to require issuance earlier or later than the issue date originally specified; provided,